1981 Annual Report Greyhound Computer of Canada Ltd.

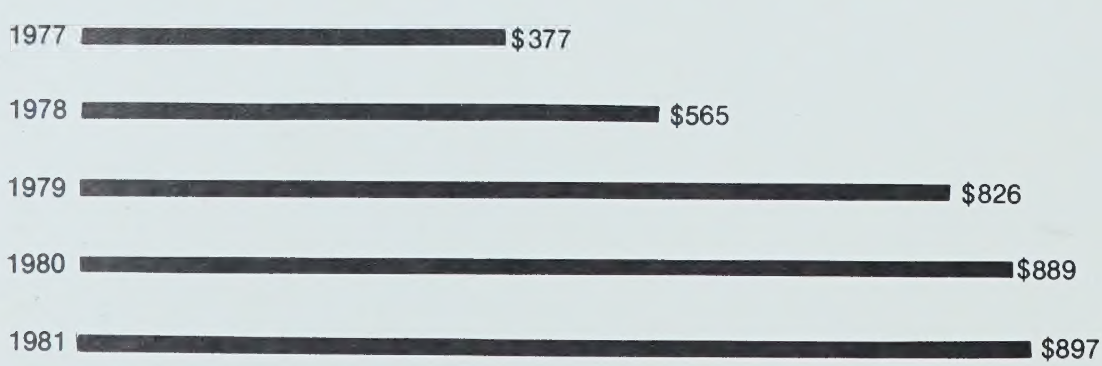
Financial Highlights

(000's Omitted)

	1981	1980	1979	1978	1977
Revenue	$ 5,879	$ 5,078	$ 6,712	$ 7,138	$ 5,488
Income before Provision for Income Taxes	$ 1,801	$ 1,794	$ 1,542	$ 1,025	$ 758
Net Income	$ 897	$ 889	$ 826	$ 565	$ 377
Shareholders' Equity	$ 10,842	$ 10,440	$ 10,010	$ 9,497	$ 9,123
Earnings per Share	22¢	22¢	21¢	14¢	9¢
Dividend per Share	12¢	12¢	8¢	5¢	—
Net Investment in Direct Financing Leases	$ 10,952	$ 2,146	$ 2,284	$ 2,398	$ 3,068
Computer Equipment Owned (at cost)	$ 30,487	$ 22,386	$ 27,043	$ 38,152	$ 30,048
Computer Equipment Owned (at carrying amount)	$ 24,118	$ 8,357	$ 10,459	$ 19,009	$ 12,956

Revenues (thousands)

Net Income (thousands)



1981 Report to the Shareholders

In 1981, Greyhound Computer of Canada Ltd. increased net income for the sixth consecutive year. The Company's net income reached $897,000 compared with $889,000 in 1980.

Revenue for the year ended December 31, 1981 was $5,879,000 compared with $5,078,000 for the prior year. This increase in revenue was due primarily to the lease of several large computer systems added to the portfolio in mid-1981.

On November 19, 1981, the Board of Directors declared a dividend of 12 cents per share payable on January 2, 1982, to shareholders of record as of December 9, 1981. At year end, shareholders' equity amounted to $10,842,000 or $2.63 per share.

Financial highlights for the last five years are shown on the opposite page.

During 1981, $18.8 million was invested in computer hardware, including central processors manufactured by Amdahl and IBM, disk storage systems manufactured by IBM, and magnetic tape transports manufactured by Storage Technology Corporation. In addition, certain production equipment used in the manufacture of automobiles and having a value of $19.4 million was purchased and leased back to a major auto manufacturer. The resulting revenue from these investments in equipment will contribute to future earnings of the Company.

As previously reported to you, a major customer, Advocate Mines Limited, is experiencing financial difficulties and a trustee and interim receiver is handling creditor claims. In view of these difficulties, 1981 results reflect the establishment of a $300,000 provision for loss.

Greyhound Computer of Canada Ltd. continues to specialize in the leasing of computer systems, and the buying and selling of used computer equipment. Our customers include many of the most successful firms in Canada, and they realize substantial cost savings in their data processing operations by dealing with Greyhound.

The Board of Directors thanks all of the employees for their hard work and dedication throughout the year.

On behalf of the Board,

W.D. Maunder
President and Chief Executive Officer

Greyhound Computer of Canada Ltd.

(Incorporated under the Canada Business Corporations Act)

Statement of Consolidated Financial Condition

Assets	December 31, 1981	1980
CASH	$ 31,544	$ 76,757
SHORT TERM CERTIFICATES OF DEPOSIT	315,000	788,750
RECEIVABLES:		
Accounts receivable	195,976	132,459
Less allowance for doubtful accounts	1,533	43,197
	194,443	89,262
Advance to affiliate (Note G)	—	2,055,000
Due from Greyhound Computer Corporation	—	121,622
Recoverable income taxes	1,480,499	58,759
Estimated realizable value of equipment lease (Note H)	866,290	—
	2,541,232	2,324,643
COMPUTER EQUIPMENT PURCHASED FOR RESALE	91,030	126,825
NET INVESTMENT IN DIRECT FINANCING LEASES (Note A):		
Equipment lease receivables (due within one year — $2,947,800 — 1982; $699,510 — 1981)	16,275,231	2,370,840
Estimated residual value of equipment	1,065,650	473,680
Less unearned income	(6,389,181)	(698,058)
	10,951,700	2,146,462
COMPUTER RENTAL EQUIPMENT (Notes A, B and D)		
Cost	30,486,730	22,386,174
Less accumulated depreciation	6,368,907	14,028,703
	24,117,823	8,357,471
OTHER ASSETS	112,096	57,325
	$ 38,160,425	**$ 13,878,233**

On behalf of the Board

A.C. Batastini
Director

W.D. Maunder
Director

See accompanying notes to consolidated financial statements.

Liabilities and Shareholders' Equity	December 31, 1981	1980
SHORT TERM LIABILITIES:		
Demand note to affiliate (Note G)	$ 5,000,000	$ —
Bank loans (Note C)	6,315,000	—
Equipment contracts payable	4,250,000	—
Accounts payable	167,285	158,893
Accrued expenses	100,048	94,097
Rentals received in advance	6,651	47,317
Dividend payable	494,880	494,880
Due to Greyhound Computer Corporation	11,765	—
Current portion of long-term debt	2,037,644	49,857
	18,383,273	845,044
LONG-TERM DEBT (Note D)	4,635,574	199,429
DEFERRED ITEMS (Note A):		
Income taxes	4,299,412	2,341,913
Investment tax credit	—	52,255
	4,299,412	2,394,168
SHAREHOLDERS' EQUITY (Note E):		
Capital stock, without par value		
Authorized — unlimited		
Issued and fully paid		
— 4,124,000 shares	5,068,650	5,068,650
Retained income	5,773,516	5,370,942
	10,842,166	10,439,592
	$ 38,160,425	**$ 13,878,233**

Auditors' Report

The Shareholders,
Greyhound Computer of Canada Ltd.

We have examined the statement of consolidated financial condition of Greyhound Computer of Canada Ltd. as at December 31, 1981 and the statements of consolidated income and retained income and changes in consolidated financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1981 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Touche Ross & Co.

Chartered Accountants
Toronto, Ontario
January 27, 1982

See accompanying notes to consolidated financial statements.

Statement of Consolidated Income and Retained Income

	Year Ended December 31 1981	1980
COMPUTER LEASING AND OTHER REVENUES (Note A)	$ 5,879,155	$ 5,078,398
COSTS AND EXPENSES:		
Depreciation of computer equipment (Note A)	2,668,462	2,208,531
Other direct leasing costs	312,757	436,126
Interest	172,172	42,479
Provision for loss on equipment lease agreement (Note H)	300,000	—
Selling, administrative and other operating expenses	624,565	597,239
	4,077,956	3,284,375
INCOME BEFORE INCOME TAXES	1,801,199	1,794,023
INCOME TAXES (Note A):		
Currently (recoverable) payable	(1,022,609)	1,067,466
Deferred	1,978,609	(122,466)
Investment tax credit amortization	(52,255)	(40,014)
	903,745	904,986
NET INCOME	897,454	889,037
RETAINED INCOME, JANUARY 1	5,370,942	4,976,785
	6,268,396	5,865,822
DIVIDEND DECLARED ($.12 per share — 1981; $.12 — 1980)	494,880	494,880
RETAINED INCOME, DECEMBER 31	$ 5,773,516	$ 5,370,942

	1981	1980
NET INCOME PER SHARE:		
Based on weighted average of shares outstanding	$.22	$.22

See accompanying notes to consolidated financial statements.

Statement of Changes in Consolidated Financial Position

	Year Ended December 31 1981	Year Ended December 31 1980
SOURCE OF FUNDS:		
From operations:		
Net income	$ 897,454	$ 889,037
Depreciation	2,674,626	2,215,092
Deferred income taxes	1,957,499	(122,466)
Provision for loss on equipment lease agreement	300,000	—
Total from operations	5,829,579	2,981,663
Increase in short-term borrowings	11,315,000	—
Additional long-term debt	6,485,000	—
Increase in equipment contracts payable	4,250,000	—
Collection of advance to affiliate	2,055,000	—
Collections on direct financing leases in excess of income amortization	427,388	559,096
Disposals of computer equipment	370,556	776,751
Decrease in receivables and other assets	—	214,908
	30,732,523	4,532,418
USE OF FUNDS:		
Expenditures for equipment:		
Operating leases of computers	18,790,888	901,303
Direct financing leases	10,405,400	421,344
Advance to affiliate	—	2,055,000
Dividend	494,880	494,880
Increase in recoverable income taxes	1,421,740	—
Decrease in other short-term liabilities	38,536	1,031,691
Other, net	100,042	202,726
	31,251,486	5,106,944
DECREASE IN CASH AND SHORT TERM CERTIFICATES OF DEPOSIT	$ 518,963	$ 574,526

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

December 31, 1981

A. Significant Accounting and Financial Policies:

Principles of Consolidation
The consolidated financial statements include the accounts of Greyhound Computer of Canada Ltd. and its wholly-owned subsidiary, Canadian Computer Resources Limited (the Company). All material intercompany transactions and accounts are eliminated in consolidation. Certain of the prior year's balances have been reclassified for comparative purposes. Greyhound Computer Corporation owns 80.4% of the Company's capital stock.

Computer Equipment
The Company's dominant industry segment is the leasing of computer equipment.

Computer equipment is stated at cost. Substantially all computer rental equipment is IBM System/370 and System/360 and compatible equipment. IBM System/370 and compatible equipment and other equipment are depreciated on the declining balance method at annual rates of 20 to 30 per cent. For certain IBM System/370 equipment having initial lease terms of 4 years or more, depreciation amounts for the initial lease period are calculated on the declining balance method and charged to expense on the straight-line method over such periods. The carrying amount of IBM System/360 and compatible equipment is generally depreciated on the declining-balance method at a 30 per cent annual rate.

Computer equipment sold or otherwise disposed of is removed from the equipment accounts. Any resulting gain or loss is credited or charged to accumulated depreciation and amortized to income over the remaining depreciable life of comparable equipment.

Computer equipment purchased for resale is carried at the lower of cost or market. Gains or losses on sales of such equipment are included in income at the time of acceptance by the customer.

Accounting for Leasing Costs and Revenues
Substantially all computer leases are operating leases with rentals recognized as income when earned. Sales commissions are generally deferred and amortized over the average term of related leases. Substantially all other selling and administrative expenses and direct costs, including maintenance, refurbishing and relocation expenses, are charged to income as incurred.

For direct financing leases, the equipment lease receivables, unearned income, and residual value of the equipment are recorded when lease contracts are signed. The unearned income (representing the difference between the aggregate lease rentals and the cost of related equipment, commissions and other direct expenses, less estimated residual value of the equipment at the end of lease term) is recorded as income over the term of the related lease.

Income Taxes
Deferred taxes are provided on timing differences between tax and financial reporting and relate to depreciation and income on direct financing leases.

Investment tax credits on equipment subject to direct financing leases are deferred and amortized by credits to income, in proportion to unearned income amortization, over the term of the related lease.

Foreign Currency Translation
Assets bought and sold during the year and transactions relating to net income in foreign currencies are translated into Canadian dollars at the rates prevailing on the date of the transaction. Assets and liabilities in foreign currencies at the close of the year are translated into Canadian dollars at the rate prevailing at December 31. Differences on translation are charged or credited to income over the average term of the related lease.

B. Computer Rental Equipment:

The Company's business principally involves leasing and other marketing of data processing computer systems, primarily IBM and compatible equipment. Most leases are operating leases which are for initial terms of one to three years, and are subject to termination on 90 — 180 days notice, in some cases upon payment of cancellation penalties. The computer rentals over the remaining non-cancellable terms of outstanding leases at December 31, 1981 plus cancellation penalties are approximately $17,001,000 ($4,720,000 — December 31, 1980) and include approximately $251,000 ($451,000 — December 31, 1980) attributable to equipment other than IBM System/370 and compatible equipment. These non-cancellable amounts are due as follows: $8,131,000 (1982); $7,050,000 (1983); $1,775,000 (1984); $45,000 (1985).

Accordingly, the recovery of the Company's carrying amount, $24,118,000, of computer equipment at December 31, 1981, is dependent upon renewal of existing leases or sale or lease of related equipment at satisfactory prices. Expenses incurred in marketing equipment and loss of revenues during periods between customers are substantial.

The following table summarizes the Company's investment in computer equipment at December 31, 1981 and 1980:

	December 31,			
	1981		1980	
Type of equipment	Cost	Carrying amount	Cost	Carrying amount
	(000's Omitted)			
IBM System/370 and compatible	$27,648	$23,390	$10,572	$7,148
IBM System/360 and compatible	2,594	630	11,133	1,055
Other	245	98	681	154
	$30,487	$24,118	$22,386	$8,357

Continuing developments in computer technology, pricing and delivery of advanced computer equipment by manufacturers and changes in rental rates and sales prices by IBM and other lessors and dealers could significantly influence estimates of useful lives and future rental or sales values of the Company's equipment. Management believes that the Company will be successful in recovering the carrying amount of computer equipment.

C. Bank Loans:

At December 31, 1981, the amount outstanding included bank loans aggregating $6 million under an agreement which is subject to renewal on May 31, 1982. The agreement provides for the loans to bear interest at the bank prime rate.

D. Long Term Debt:

	1981	1980
Term loans, due 1982 and 1986, 17-1/4% and 17-1/2%	$4,000,000	$ —
Bank loan, 16-7/8% at December 31, 1981	2,485,000	—
Bank loan, payable in monthly installments to 1984	188,218	249,286
	6,673,218	249,286
Less current portion	2,037,644	49,857
	$4,635,574	$199,429

Under the term loan agreement, the Company is required to grant the lender a security interest in specific computer equipment and related leases with a carrying amount at December 31, 1981 of approximately $5 million.

The bank loan is borrowed pursuant to an agreement under which the bank committed to lend the company $10 million. (The Company reduced the commitment to $8 million subsequent to December 31, 1981). The terms of this agreement provide that loans would be advanced for a maximum period of six months at 3/8 of one percent over the Canadian bank prime rate. Such loans are to be converted within the six month period to term loans of six to twenty-four months on a U.S. Eurodollar loan basis fully hedged to Canadian dollars. The converted loans are to bear interest at the rate of 3/4 of one percent over the London inter bank offered rate. Since the Company can convert outstanding amounts to loans due beyond one year, the loans have been classified as long term debt at December 31, 1981. Upon request, the Company is required to grant the bank a security interest in certain owned equipment and related leases and may not otherwise encumber such assets.

E. Stock Option Plan:

The Company has granted options to officers and key employees, under the Company's 1969 Incentive Stock Option Plan, to purchase capital stock of the Company at the market price on the dates of granting the options. Such options expire five years from the date of grant. During the year ended December 31, 1981, no shares were issued under the options previously granted. As at December 31, 1981, options granted on March 22, 1978 at 42 cents per share were outstanding on 15,000 shares of capital stock. This plan expired in 1979.

Subsequently, the Company adopted a plan, the 1980 Stock Option Plan, which authorizes the granting of options to officers and key employees to purchase 200,000 shares of the capital stock of the Company at not less than 85 percent of the market price at the dates of granting the options. Such options expire ten years from the date of grant. No options have been granted under this plan.

F. Directors and Officers:

The Company has nine directors and ten officers, of whom four are directors. The directors received $1,600 as directors and the aggregate remuneration of officers for the year ended December 31, 1981 was $217,179 ($182,363 — 1980).

The total remuneration of directors and senior officers, as defined by The Securities Act — Ontario, for the year ended December 31, 1981 was $285,195 ($237,849 — 1980).

G. Transactions with Parent and Affiliate:

During 1981, the Company completed transactions with its parent, in which computer equipment was sold for $183,240 ($618,632 — 1980) and unrelated computer equipment was purchased for $453,609 ($345,777 — 1980).

During the year, the Company collected from Greyhound Leasing & Financial of Canada, Ltd., an affiliated company, the advance of $2,055,000 which was outstanding at December 31, 1980 and borrowed $5,000,000 from such affiliate. Repayment is due on demand and interest is payable monthly at the Canadian bank prime rate.

H. Provision for Loss on Equipment Lease Agreement:

As stated in the Company's September 30, 1981 third quarter report, a major customer experienced financial difficulties and at the date of these financial statements, a trustee and interim receiver of the customer, was acting to settle creditor claims. The equipment on lease to the customer consists of four off-highway vehicles and other related equipment. The lease was originally recorded as a direct financing lease. In view of the circumstances, the lease has been reclassified to reflect its estimated realizable value and a $300,000 provision for loss has been recorded.

I. Sales of Computer Equipment Subsequent to December 31, 1981:

Subsequent to December 31, 1981, the Company sold computer equipment for $4,000,000, which slightly exceeded the net book value of such equipment. These sales will be reported in 1982 and the proceeds of such sales were used to reduce short term indebtedness outstanding at December 31, 1981.

Directors and Officers

Directors	Ralph C. Batastini, Phoenix W. Carroll Bumpers,Phoenix Charles J. Clark, Windsor Gordon B. Clarke, Phoenix James A. Knight, Calgary W. Donald Maunder, Toronto Leonard J. Micallef, Toronto Olie E. Swanky, Phoenix John H. Taylor, Toronto
Officers	Olie E. Swanky, Chairman of the Board Gordon B. Clarke, Vice Chairman of the Board W. Donald Maunder, President and Chief Executive Officer Ronald J. Camsell, Vice President Leonard J. Micallef, Vice President and Controller Frederick G. Emerson, Secretary Robert C. Kibler, Treasurer Levon Kasarjian, Jr., Assistant Secretary Carol Kotek, Assistant Secretary Ralph J. Wehling, Assistant Secretary
Auditors	Touche Ross & Co., Chartered Accountants
Registrar and Transfer Agent	The Royal Trust Company
Stock Listing	The Toronto Stock Exchange
Bankers	Bank of Montreal Canadian Imperial Bank of Commerce The Mercantile Bank of Canada The Royal Bank of Canada
Head Office	Guardian of Canada Tower 181 University Avenue, Suite 1416 Toronto, Ontario M5H 3M7 (416) 366-1513 Telex 06-22371
Branch Office	2050 Mansfield Street, Suite 1430 Montreal, Quebec H3A 1Y9 (514) 281-1925 Telex 05-25723
Annual Meeting	The Annual meeting of shareholders will be held at 10 a.m. on Tuesday, May 4, 1982 at the offices of the Board of Trade of Metropolitan Toronto, 3rd Floor, First Canadian Place, Toronto, Ontario.